

Indian Business and the Congress Provincial Governments 1937–39

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1981

The late 1930s saw a definite turn in political developments in India. Following the abandonment of Civil Disobedience in 1934, a prolonged period of internal peace helped the Congress, until then a broadly-based movement with a general commitment to fight foreign rule, evolve into a more organized party capable of aspiring to political dominance. In the process, its relations with different social forces took a more definite shape. While in the past the Congress had clung to the myth of an Indian society free of internal conflicts and united in opposition to the British, the growth of social conflicts in town and countryside forced it to take into account the competing aspirations of various groups.

Assuming office in seven provinces in July 1937 under a régime of qualified provincial autonomy introduced by the 1935 constitution, the party found itself confronted with the difficult task of accommodating these competing interests within a framework in which only limited financial resources were available; financial control at the centre remained firmly in British hands,¹ and provinces had largely inelastic sources of revenue. Among the interest groups which were making demands on the Congress ministries the most powerful was the Indian business class, which had expanded at a relatively quick pace during the period 1932–37, and which found itself increasingly alienated from the conservative economic policies followed by the Government of India. By the ‘Indian business class’ we mean here Indian big business, that is the small élite of big traders, financiers and industrialists which was largely concentrated in a few centres like Bombay, Ahmedabad, Calcutta, Cawnpore and Coimbatore. Though far from constituting a homogeneous group, these businessmen displayed certain characteristics which set them clearly apart from

¹See B. R. Tomlinson, *The Political Economy of the Raj. The Economics of Decolonization in India 1914–1947* (London, 1979), p. 131.

the mass of small traders, money-paper lenders, brokers and petty entrepreneurs which formed the bulk of the Indian merchant classes. They differed from the lesser interests in the size of their financial resources, the range and scale of their activities (from foreign trade to big industry), and their organizational skill. They had captured the leadership of most of the regional trade associations and had established in 1927 the first all-India business association, the Federation of Indian Chambers of Commerce and Industry, which was the closest thing to a lobby in India. This group had been a major source of funds for the Congress campaigns since the 1920s, and it had acquired some influence on the Congress High Command. While the businessmen expected to derive some advantages from the advent of the Congress ministries, they were at the same time apprehensive of the policy the latter would follow in labour matters.

How could the Congress accommodate capitalist demands along with the growing populist pressures and postures which were in evidence both outside and inside the Party? Conversely, would businessmen, who had always been careful of keeping good relations with the British, and had used nationalist agitations mainly as a means of extracting concessions from them, adjust to a situation in which some power of patronage had passed from the hands of the British into those of the Congress? These were some of the questions raised by the advent of the Congress ministries. After 1937 the British, though they were less in evidence, had not altogether disappeared from the Indian scene and therefore the political attitudes of the Indian businessmen during the 1937–39 period were determined by a complex interplay of national and provincial factors. Though this study will focus on the relations between Indian business and the Congress in the major Congress-ruled provinces (thus leaving aside Bengal and its strong Marwari business community) the impact of all-India trends will not be ignored.

Relations between Congress and Business before the Advent of the Congress Ministries

Relations between Congress and business at the national level had grown closer during the 1920s and the first phase of the Civil Disobedience movement (1930–31), but were severely strained in 1932–34. During these years, business support for the movement remained limited, while the Indian business class split over the issue of imperial preference and the Ottawa agreement. Though the small and medium-scale traders in Bombay embarked upon an effective boycott of British business and directly confronted the authorities in 1932–33, even the most pro-Congress faction

in big business, represented by a section of the Calcutta Marwaris led by G. D. Birla and by the Ahmedabad millowners, favoured the end of the agitation. Bombay big business openly broke with the Congress, and tried to use the Ottawa agreement to its own advantage by forming alliances with groups of British capitalists to fight more dangerous competition from Japan (in cotton textiles) and Belgium (in the iron and steel industry) in the Indian market. The Lees–Mody pact concluded in 1933 between the representatives of the Bombay cotton mills and of Lancashire epitomized the new course of Bombay business politics. The divisions within the ranks of the Indian capitalists persisted even after the abandonment of Civil Disobedience by the Congress, but they became less pronounced as Bombay business grew aware of the new moderation of the Congress leadership and found it increasingly difficult to conciliate its interests with those of Lancashire.² In 1936 common opposition to the Congress left drew both factions of big business closer to the dominant group of the Congress leadership.³

The decision by the Congress High Command to contest the 1937 elections in the provinces under the new régime of provincial autonomy showed that the Congress was ready to accept at least partly the new constitution. It exposed the basic weakness of its left wing, which had been preaching boycott of the elections. Business circles generally welcomed the Congress decision and some financial aid was promised to the Party.⁴

However, since the elections were fought on a provincial basis, the attitudes of businessmen were largely dictated by their relations with the Congress organizations at the provincial level, and not only by the rapport they had established with the High Command. The situation, thus, varied considerably from province to province. Prior to 1937, under the so-called ‘dyarchy’ régime, non-Congress provincial governments had only limited powers, but industry and civil works were among the transferred subjects and had conveyed some powers of patronage. In some provinces, the non-Congress forces in power had strengthened their links with the business class by giving businessmen ministries and other favours. This was, for instance, the case in

²This brief account of the politics of Indian business in 1932–36 is based on my unpublished Ph.D. dissertation, ‘Indian Business and Nationalist Politics from 1931 to 1939: The Political Attitude of the Indigenous Capitalist Class in Relation to the Crisis of the Colonial Economy and the Rise of the Congress Party’, Cambridge, 1978.

³See *ibid.*, pp. 166–71.

⁴In February 1936, G. D. Birla held a series of talks with the Congress Parliamentary Board. He estimated the needs of the Congress for the election campaign at ₹5 lakhs, of which he proposed to raise a large amount from the business community. See Bhulabhai Desai diary, entries for 2 and 10 February, Bhulabhai Desai Papers, Nehru Memorial Museum and Library, New Delhi (NMML).

the Madras Presidency, where a large section of the local capitalist class had been integrated with the power structure of the Justice Party.⁵ Similar trends, though less conspicuous, had emerged in other provinces, particularly in Bombay and in the United Provinces. As a result, relations between business and the Congress provincial organizations were often strained. Actually one must distinguish between two levels of politics. At the lower level, that of the locality, traders and merchants seem to have increased their influence within the Congress in the post-1934 period, mainly through their control of financial resources.⁶ But larger capitalists, that is, both big traders and industrialists, whose operations affected the entire economy of a province, generally kept aloof from Congress provincial politics, though there were of course exceptions. This explains partly the difficulties which the provincial Congress organizations had in raising funds for the election campaign and their need to appeal to the High Command for help. Thus, in a letter to Rajendra Prasad, the Congress leader of the United Provinces complained of lack of funds in his province,⁷ adding that he thought that other Congress provincial organizations were similarly handicapped. In Bombay city, not much money was raised either.⁸ In Bihar, Seth Dalmia, the big Marwari industrialist, gave some help, but on a limited scale.⁹

In spite of these difficulties, the Congress scored impressive victories in most of the provinces and showed that, outside the Muslim-majority provinces, it was the dominant political force in India. It won an absolute majority in six of the eleven provinces (Bihar, Central Provinces, Madras, Northwest Frontier Province, Orissa and the United Provinces) was close to it in Bombay, emerged as the single largest party in Assam, and fared badly only in the three Muslim-majority provinces of Bengal, the Punjab and Sind, in which it nevertheless won most of the general (non-Muslim) seats. An analysis of the election results gives interesting indications about the political complexion of Indian businessmen.

A first set of conclusions can be drawn from a careful reading of the results of

⁵David Arnold, *The Congress in Tamilnad. Nationalist Politics in South India, 1919–1937* (Delhi, 1977), p. 158.

⁶This trend is noticed for the United Provinces in G. Pandey, *The Ascendancy of the Congress in Uttar Pradesh 1926–1934. A Study in Imperfect Mobilization* (Delhi, 1978), p. 57, and in Arnold, *The Congress in Tamilnad*, p. 168, for Madras.

⁷Pandit Pant to Rajendra Prasad, 11 May 1936, intercepted letter. Government of India, Home (Poll.), 14 May 1936, National Archives of India, New Delhi (NAI).

⁸Two of the most influential figures in Bombay big business, the cotton magnates and financiers Sir Purshottamdas Thakurdas and his cousin Sir Chunilal Mehta, pointedly refused to contribute. B. R. Tomlinson, *The Indian National Congress and the Raj, 1929–1942. The Penultimate Phase* (London, 1976), p. 82.

⁹*Ibid.*, p. 82.

the elections to the seats reserved for Indian commerce. Under the new régime, a total of twenty-three seats in ten Provincial Assemblies¹⁰ were reserved for Indian commercial, mining and industrial interests (including two seats reserved for Indian tea planters in the Assam legislature). Of these, the Congress Party contested only six and won three. Eight other seats went to businessmen known for their pro-Congress leanings, while a further seven seats were won by known anti-Congressites, three of whom were elected contesting against a Congress candidate. The remaining seats went to businessmen without known political leanings, though some of them might have been Congress sympathizers. Table 1 shows the results to the commercial seats in each province.

This table shows wide differences in the political behaviour of businessmen in various provinces. In Madras, where industry was still dominated by British capital (with the exception of Coimbatore, which was the largest centre of the textile industry in the province), the opposition to the Congress from large Indian trading and moneylending interests was demonstrated by the failure of the Congress Party to secure any of the reserved seats. In the Nattukottai Nagarathar Association constituency, the Congress candidate was defeated by Muttiah Chettiar, a merchant prince and a banker, the head of the Nattukottai Chettiar community, which dominated the financial scene in south India and had huge interests abroad. He had been a minister under the Justice Party régime, and became the leader of the Justiceite opposition to the new Congress régime. The Congress also lost the seat for the Southern India Chamber of Commerce. If one keeps in mind that in the 1934 elections to the Central Legislative Assembly, the Congress had secured its only seat in a constituency reserved for Indian commerce in Madras, the 1937 results will undoubtedly appear as a setback. In the Central Provinces also, the anti-Congress feelings of one section of the traders and industrialists were shown by the defeat of the Congress candidate to the Berar commerce seat (which included Nagpur, the only big commercial and industrial centre in the province) at the hands of one of the biggest Marwari millowners of the province.

Table 1: Results of 1937 Provincial Elections. Seats Reserved for Indian Commerce¹¹

I ¹²	II ¹³	III ¹⁴	IV ¹⁵	V ¹⁶	VI ¹⁷	VII ¹⁸
Assam	3					3
Bengal	5			3	2	
Bihar	2			2		

¹⁰There was no seat reserved for commerce in the Northwest Frontier Province Assembly.

I	II	III	IV	V	VI	VII
Bombay	4	1	1	2	1	
Central Prov.	2	2	1		1	
Madras	2	2	0		2	
Orissa	1					1
Punjab	1					1
Sind	1	1	1			
United Prov.	2			1	1	

The United Provinces results revealed the political division among Indian businessmen in this largely agricultural province in which Cawnpore was the only big industrial centre. Sir J. P. Srivastava, a Cawnpore industrialist who was a supporter of the Hindu Mahasabha and a determined adversary of the Congress (he had been a minister under dyarchy and contested the election on the ticket of the National Agriculturist Party, which represented the most reactionary faction of the United Provinces *zamindars*), was elected to one of the seats reserved for the Upper India Chamber of Commerce, a British-dominated commercial association. In the joint constituency formed by the United Provinces Chamber of Commerce and the Merchants' Chamber of the United Provinces, Lala Padampat Singhania, a pro-Congress business magnate of Cawnpore, defeated in a straight fight another magnate, Rameshwar Prasad Bagla, who was an opponent of the Congress.¹⁹

In Bombay, the Congress contested only the seat reserved for the East India Cotton Association and won it. Pro-Congress businessmen were elected in the Ahmedabad Millowners' Association and Indian Merchants' Chamber constituencies.

¹¹Sources: A Brief Analysis of the Election Results. Issued by the Political and Economic Information Department of the All-India Congress Committee (AICC). Reproduced by N. Mitra (comp.), *Indian Annual Register*, 1937, vol. I, pp. 168 ff (Calcutta, 1937), and *Indian Yearbook* 1937–38 (Bombay, 1938).

¹²Name of the Province;

¹³No. of seats reserved for Indian Commerce;

¹⁴No. of seats contested by the Congress;

¹⁵No. of seats won by the Congress;

¹⁶No. of seats won by pro-Congress businessmen;

¹⁷No. of seats won by anti-Congress businessmen;

¹⁸No. of seats won by others.

¹⁹Singhania defeated Bagla by 101 votes to 67. P. Reeves *et al.*, *A Handbook to Elections in Uttar Pradesh 1920–1951* (Delhi, 1975), p. 308.

cies. But in the Bombay Millowner's Association constituency, Sir S. D. Saklatvala, of the Tata group, was returned unopposed. Both the Millowners' Association and the Tata group had in the past followed an anti-Congress line, and though they had become more cautious lately, they could not be counted as supporters of the Party. In Bengal, there was a clear-cut division. Out of five members elected from the reserved constituencies, three could be considered pro-Congress. They were the two nominees of the Bengal National Chambers of Commerce and the one of the Indian Chamber of Commerce. Among them, was Nalini Ranjan *Sarkar*, who became Finance Minister in the non-Congress ministry formed after the elections, but who was known to be close to the B. C. Roy faction of the provincial Congress. The other two members elected for commerce, from the Muslim Chamber of Commerce and the Marwari Association, were opponents of the Congress. Finally, the Congress and its allies had their greatest victories in Bihar and Sind, where they won all the commercial seats.

The overall results thus reveal a fair amount of support for the Congress from the electorate in the reserved constituencies (which represented the upper strata of the Indian business community), despite the existence of strong pockets of opposition in two or three provinces.

Other indications about businessmen's participation in the political process are to be found in an analysis of the results of the elections to the non-commercial seats. It was customary for some big businessmen having an interest in politics to seek election from either urban or rural seats. In the 1934 elections to the Central Legislative Assembly, some businessmen were elected to such seats,²⁰ generally as independents. There is no precise data available on the number of businessmen who tried to get elected in the 1937 elections, but one must draw attention to the following facts. Two figures of local big business who contested on non-Congress tickets suffered crushing defeats at the hands of the Congress in two rural constituencies of the Cawnpore district.²¹ The only representative of big business who was elected as an independent in the face of Congress opposition was Lalchand Hirachand who stood successfully from a rural constituency in Maharashtra. Being the son of Walchand Hirachand, one of the biggest Indian capitalists in Bombay, he could rely on the vast rural clientage provided by his father's sugar factory situated in the area.

Apart from the sugar magnates, few businessmen could draw upon a client

²⁰ Among them was Sir Cowasji Jehangir, a big Parsi financier and industrialist, who was elected from Bombay Central (Non-Muhammedan Urban).

²¹ They were Vikramjit Singh, a big Cawnpore merchant and one of the leaders of the United Provinces Chamber of Commerce, who contested on a Hindu Sabha ticket; and Lady Kailash Srivastava, Sir J.P.'s wife, who stood as independent. Reeves *et al.*, *Elections in Uttar Pradesh*, p. 273.

network in the countryside, and this seriously limited their possibilities of getting elected in rural constituencies without the support of a party machinery. With the multiplication in the number of voters brought about by the enlargement of the franchise,²² electioneering was no more only a question of resources, but necessitated organization, which only a political party and not an individual could muster. This is demonstrated *a contrario* by the electoral successes of some big Muslim merchants who contested on Muslim League tickets from Muslim rural seats.²³ The reasons why the Muslim League was more generous than the Congress in giving tickets to businessmen were twofold: firstly, the Muslim League had less resources and talent than the Congress; secondly, contesting on a League ticket did not expose a businessman to the active hostility of the British authorities, while siding too openly with the Congress might have had dangerous consequences.²⁴ Also, the growing communal alignment among Indian businessmen favoured the League more than the Congress.²⁵

There was, thus, no perceptible increase in the direct participation of businessmen in electoral politics. Businessmen tended to work more behind the scenes and tried to use the financial weapon to influence the Congress.²⁶ But the overwhelming victories won by the Congress in most of the provinces did not leave them much room for manoeuvring. The prevailing economic and social conditions under which the new Congress ministries, formed in July 1937, had to operate, caused them further anxieties.

²²The total number of voters grew from 7 to 36 millions. The really poor remained excluded, but there was an extension of the franchise to the urban working class and lower middle classes, and to the middle peasantry. See Tomlinson, *Indian National Congress and the Raj*, p. 71.

²³Among them A. H. Ispahani in Bengal and Ibrahim Rahimtoolla in Bombay.

²⁴Many Indian businessmen were heavily dependent upon Government orders and contracts.

²⁵Muslim businessmen, who faced increasing competition, even in their traditional fields, from Hindus, tended to close ranks in the 1930s and to support the Muslim League. Hindu businessmen on the other hand, especially those living in the Muslim-majority provinces of Bengal and the Punjab, found the Congress too soft with the Muslims, and many supported the Hindu Mahasabha.

²⁶Thus businessmen pressurized the Congress into removing from their list of candidates some trade unionists whom they found too radical. In Bombay, the trade unionist Nimbkar lost the Congress ticket because of big business pressure. See Times of India, 11 November 1936. In Bihar, Seth Dalmia obtained the removal of a man who had organized a strike in his mills from the list of Congress candidates. Tomlinson, *Indian National Congress and the Raj*, p. 83.

The Environment of Provincial Autonomy: Major Constraints on Congress–Business Relations in the Provinces.

When the Congress ministries were formed in seven provinces, the Indian economy had just started to recover from the effects of the unprecedented depression of the early 1930s. The depression resulted in a fall in land revenue, which was the single largest source of revenue for the provincial governments,²⁷ and thus had a disastrous impact on provincial finances. While the Central Government had been able to overcome a financial crisis by 1932,²⁸ the provincial governments remained in a difficult situation throughout the thirties. Their inability to find new sources of revenue to supplement those in existence prevented them from making any significant contribution towards economic development. The share of civil works in the total expenditure of all the provincial governments actually fell during the first half of the 1930s, and the allocation for industries (a purely provincial subject since the 1919 reforms) remained at a measly one %.²⁹ In this context, the devolution to the provincial governments of increased responsibilities in matters of economic development and social welfare under the 1935 reforms, was bound to remain purely theoretical, unless accompanied by an increase in the financial resources of the provinces.

A small step in that direction had been made when the Government of India had accepted the recommendations of the Indian Financial Enquiry Committee of 1936,³⁰ headed by Sir Otto Niemeyer. The Niemeyer Award, as it came to be known, had allotted to the provinces 50% of the revenue yielded by the income tax, the levy of which remained a prerogative of the Central Government. But it had been decided that during five years part of the transferable amount would be retained by the Centre for the consolidation of its own finances. The overall transfer of resources was therefore very limited. In the way the allocation had been made between the different provinces, the poorest ones, such as the newly-formed provinces of Orissa and Sind, had been favoured at the expense of the more developed ones, such as

²⁷In 1929–30, land revenue accounted for 33.2% of the total revenue of all provincial governments, while the second largest single item, excise, accounted for 22.2%. Tomlinson, *Political Economy of the Raj*, Table 4.5, p. 156.

²⁸See Markovits, 'Indian Business and Nationalist Politics', pp. 62–3.

²⁹Between 1929–30 and 1934–35, the share of civil works in the total expenditure of the provincial governments fell from 10.9 to 8.6%. During the same period, industries dropped from 1 to 0.9%. Tomlinson, *Political Economy of the Raj*, p. 156.

³⁰*Report of the Indian Financial Enquiry Committee* (London, 1936).

Bengal and Bombay, which were deemed to have sufficient resources. The business community in the latter provinces had reacted very unfavourably to the Niemeyer Award, protesting that lack of resources would hamper the work of the ministries.³¹ Despite these hostile reactions the Niemeyer Award had the merit of offering some prospect of financial relief to the beleaguered governments of the poorest provinces.

Another innovation introduced by the 1935 reforms had been the freedom given to the provincial governments to borrow money directly from the market without having to go through the cumbrous financial machinery of the Central Government. Yet borrowing could be no more than an expedient; to attract investors, the provincial governments had to offer conditions at least as interesting as those given by the Centre, which meant that in the future the repayment of the debts incurred would necessitate a raising of the permanent revenue. All in all, existing conditions restricted considerably the possibilities of the provincial governments. Unless they managed to cut down notably administrative expenditure (which would necessarily mean a direct clash with a powerfully-entrenched bureaucracy) or to raise new revenue (which, given the inelasticity of land revenue, meant increased indirect taxation, never a popular measure), there was not much scope for a radical change in provincial policies. An added constraint was Gandhi's prohibitionist fad, which threatened to reduce one of the major sources of provincial revenue.

Financial constraints were not the only factor to influence business–Congress relations in the provinces. Labour problems also played an increasing role, due to the rapid growth of labour militancy in India from the mid-thirties and to the increased political weight of the trade unions.

India's labour movement, which had grown steadily throughout the 1920s, had suffered a setback at the end of the 1920s and during the early 1930s, because of repression, internal splits, and the unfavourable impact of the depression on worker's struggles. From 1935 onwards, the movement had started regaining strength. The number of registered unions and their membership showed an upward trend, strikes became more frequent, and the two largest federations of trade-unions initiated

a process of gradual rapprochement.³² As the trade union movement grew in strength, it was able to make its weight felt in politics. The provincial elections in 1937 witnessed attempts at an adjustment between the Congress and the trade-unions over the sharing of the seats reserved for labour. While this was not possible everywhere, nevertheless the Congress was able to capture approximately half of

³¹In an interview to the *Times of India*, 2 May 1936, Sir Purshottamdas Thakurdas had underlined that, during five years, there would be 'no elbow-room discernible for nation-building activities to Ministers in the provinces,' unless they raised new taxes.

³²C. Revri, *The Indian Trade Union Movement, A Historical Outline* (Delhi, 1972), pp. 204 ff.

the seats reserved for labour in the provincial assemblies.³³ To get workers' votes in the elections to the general urban seats, the Congress made big promises to them in its electoral manifesto. This attitude had paid off, as shown by the victories of the Congress candidates in most of the towns with a sizable working-class population.³⁴ The advent of Congress ministries in the majority of the provinces no doubt raised great expectations among workers and prompted them towards a greater militancy. During 1937, the labour scene in India was dominated by the great strike of the Calcutta jute workers, which affected an industry dominated by British capital, and received encouragement from the Congress. The Calcutta strike was a clear warning that labour unrest was growing, and there was not much likelihood that the Congress-ruled provinces of Bombay, Madras and the United Provinces, which had a sizable industrial labour force,³⁵ would be spared. As a matter of fact, the new Congress ministry in the United Provinces was immediately confronted with a general strike of the millworkers in Cawnpore.

Capitalists, particularly the large section which had manufacturing interests, were naturally disturbed at the growing incidence of strikes, and they were aware that Congress propaganda had helped nurture discontent among the workers. Despite handsome profits made in 1936–37,³⁶ they still entertained fears of a recession. Already the sugar industry, which had gone through an unprecedented boom in 1932–36, had been affected by an overproduction crisis, mainly due to unregulated competition among mills. Another distressing factor was the new depression which had started to affect the industrial countries. All this made Indian capitalists little inclined towards making concessions to workers, and suspicious of the efforts made by the Congress to woo labour.

The new Congress ministries therefore were faced with a difficult task: they had to try to conciliate the interests of two groups which had tended to support them in the elections and which both equally hoped that Congress rule would bring them benefits. The ministries were in danger of being subjected to contradictory

³³Out of thirty-eight labour seats, the Congress contested twenty and won eighteen. It won all the labour seats in Madras and the United Provinces, while in Bombay it contested and won only two of the seven reserved seats.

³⁴The only exception was the Bombay Presidency, where Ambedkar's Independent Labour Party won some of the urban working-class seats.

³⁵In 1937, out of 1,675,869 factory workers in India, the largest number was in Bengal, 566,458, followed by Bombay, 435,207, Madras, 186,630, and the United Provinces, 153,484. *Indian Yearbook*, 1938–39 (Bombay, 1939), p. 538.

³⁶According to the index of variable yield securities published in Statistical Research Branch, *Review of the Trade of India, 1938–39* (Calcutta, 1939), dividends paid by joint-stock companies reached a record index of 137 in March 1937 (1927–28 = 100).

pressures from above and from below. The Congress High Command, with which the capitalists wielded more influence than the trade unions, was likely to pressurize them towards taking a stand against labour; while local Congress organizations, more responsive to direct pressure from workers, would advocate support for their demands. The provincial governments would be hard put to find a middle way.

Apart from the problems posed by labour unrest, the Congress ministries would also have to arbitrate between the demands of urban and rural interests. Though conciliation was possible in many cases, as linkages were numerous between urban capitalists and big landlords in the countryside,³⁷ there was nevertheless the possibility that urban and rural interests would increasingly compete for scarce resources. Some capitalists were undoubtedly scared that, buttressed by Gandhi's well-known and increasingly radical rural bias, the Congress ministries would follow a course of hostility towards modern industry, and would restrict the opportunities for the urban interests to enlarge themselves.³⁸

Given the difficult conditions in which the Congress ministries came to power, it is not surprising that business interests harboured some misgivings about their future course of policy. Generally speaking, no capitalists were offered ministerial posts by the Congress,³⁹ which preferred to rely on its own party workers, even if their technical qualifications were limited. This could only add to the diffidence of the capitalists. The only section which really showed enthusiasm at the advent of the Congress ministries was the Marwari group led by G. D. Birla. Birla and his friends had most of their interests in Bengal, a non-Congress province, and in the Indian States.⁴⁰ Therefore they could afford to take a long-term view of developments and see the new ministries as one more step towards a peaceful transfer of power at the Centre.⁴¹ The capitalists who had the bulk of their interests in the Congress-ruled provinces, and particularly those in the Bombay Presidency, were more closely concerned with the policies of the Congress ministries.

³⁷Many *zamindars*, besides Indian princes, held shares in Indian joint-stock companies. Some *zamindars* had themselves promoted sugar mills in Northern India in collaboration with merchants. Conversely, many Indian capitalists, especially in Northern and Eastern India were large-scale landholders.

³⁸Such fears had been voiced in particular by Sir H. P. Mody, the spokesman of the Bombay textile industry and of the Tatas, as early as in 1935 in an interview to the *Times of India*, dated 14 August 1935.

³⁹The only exception was in Madras where Yakub Hasan, a big Muslim merchant, was given the Public Works portfolio.

⁴⁰Though Birla himself had sugar mills in the United Provinces.

⁴¹In a letter dated 25 May 1937 to Laithwaite, private secretary to the Viceroy, Birla expressed the hope that 'if once the Congress realises the potentiality of constitutionalism', it would 'stick to it to the end', Linlithgow Papers, India Office Library, London (IOL), Mss Eur F. 125, Vol. 118.

Economic and Social Policies of the Congress Ministries in the Initial Phase (summer 1937— spring 1938)

The biggest single factor to influence the course of relations between Indian business and the newly-formed Congress ministries was labour unrest. The advent of popular ministries encouraged workers in the Congress-ruled provinces to press for the redress of grievances which had been accumulating for the last few years. Though most authors emphasize the economic aspects of labour demands in that period,⁴² there is no doubt that political changes also played a role in the new upsurge in labour militancy. The election manifesto issued by the Congress in 1936 had promised to secure for workers ‘a decent standard of living, hours of work and conditions of labour in conformity, as far as the economic conditions in the country permit, with international standards, suitable machinery for the settlement of disputes between employers and workers, protection against the economic consequences of old age, sickness and unemployment, and the right ... to form unions and to strike for the protection of their interests.’⁴³ V. V. Giri, himself a trade-unionist and the Labour and Industries Minister of Madras, testified in his memoirs to the great expectations raised among workers by the advent of the Congress governments.⁴⁴ In most provinces the new ministries were soon confronted with an unprecedented wave of labour disputes; 1937 and 1938 were peak years in terms of incidence of labour trouble: one has to go back to 1928–29 to find comparable unrest. What is also significant is that while in 1937 Bengal was the province most affected by disputes, due to the long strike in the jute mills, in 1938 the focus of the disturbances tended to shift to the Congress-ruled provinces, particularly Madras and the United Provinces. In 1937 Bengal accounted for more than two thirds of all man-days lost in India due to industrial disputes, but in 1938 its share had fallen to less than one third. Conversely, the share of the five Congress-ruled provinces of Bihar, Bombay, the Central Provinces, Madras and the United Provinces rose from less than one third to more than two thirds of the total.⁴⁵ Table 2 shows the changes in the location of disputes between 1937 and 1938.

⁴² See Revri, *Indian Trade Union Movement*, p. 222 and V. B. Karnik, *Indian Trade Unions. A Survey* (Bombay, 1966), pp. 110 ff.

⁴³ Quoted in Kanji Dwarkadas, *Forty-five Years with Labour* (Bombay, 1962), p. 50.

⁴⁴ V. V. Giri, *My Life and Times* (Madras, 1976), Vol. I, p. 130.

⁴⁵ Computed on the basis of Table 2.

Table 2: Industrial Disputes in Selected Provinces in 1937 and 1938⁴⁶

I ⁴⁷	II ⁴⁸	III ⁴⁹	IV ⁵⁰	V ⁵¹	VI ⁵²	VII ⁵³
Bengal	166	365,699	6,090,883	157	162,888	2,698,742
Bihar	14	14,946	222,509	21	27,471	1,103,130
Bombay	88	109,858	897,211	111	62,188	694,118
Central Prov.	5	9,701	222,094	14	18,260	307,043
Madras	61	60,980	656,404	52	65,290	2,226,049
United Prov.	15	63,350	704,940	14	53,851	2,046,868
All India	379	647,801	8,982,257	399	401,075	9,198,708

In most Congress-ruled provinces, the number of disputes and of workers involved in them did not actually increase between 1937 and 1938, but the number of man-days lost multiplied spectacularly, an indication that strikes lasted longer. In 1938, half of the disputes ended in a settlement which was at least partly satisfactory for the workers.⁵⁴ Among causes of disputes, wage demands came first, but significantly, demands for the recognition of trade unions were on the increase.⁵⁵ This reflected the spectacular growth of the trade-union movement in 1937–38. The number of registered unions and their membership increased by fifty % in one year, an unprecedented fact in the history of the Indian labour movement.⁵⁶ Though the progress of unions was greatest in Madras, followed by the United Provinces, in other

⁴⁶Sources: C. Revri, *The Indian Trade Union Movement. An Historical Outline* (Delhi, 1970), pp. 217–19. *Labour Gazette*, Bombay, June 1939, p. 768.

⁴⁷Province.

⁴⁸No. of industrial disputes in 1937.

⁴⁹No. of workers involved in 1937.

⁵⁰No. of man-days lost in 1937.

⁵¹No. of disputes in 1938.

⁵²No. of workers involved in 1938.

⁵³No. of man-days lost in 1938.

⁵⁴Out of 387 disputes in which settlements were arrived at during the year, in 181 or 46.77%, the workers were successful in gaining concessions. In 51 or 13.18%, they were completely successful and in 130 or 33.59% only partially successful. *Labour Gazette*, Bombay, June 1939, p. 770.

⁵⁵Revri, *Indian Trade Union Movement*, p. 220.

⁵⁶The number of registered unions increased from 262 in 1937, of which 219 submitting returns had a membership of 257,308, to 420 in 1938, of which 343 submitting returns had a membership of 390,112. *Ibid.*, p. 234.

Congress-ruled provinces such as Bombay or Bihar, it was less than in Bengal.⁵⁷

In the Congress-ruled provinces, Indian capital was generally dominant, and therefore bore the brunt of the labour unrest. In Madras and the United Provinces, where British-controlled mills employed approximately half of the workforce in the cotton textile industry,⁵⁸ the strikes tended to affect the Indian capitalists as much or even more than their British colleagues. In Madras, most of the strikes took place in or around Coimbatore where there were few British mills. In the United Provinces, the Cawnpore strikes hit both the Indian and British millowners. The nationality of the owners made visibly little difference to the striking workers.

Turning now to the policy of the Congress ministries in labour matters, their dilemma is nicely, though somewhat naively, summed up by a labour historian, who writes:

The [Congress] organization as a whole did not desire to alienate the vested interests. It was keen on retaining their friendship and cooperation. The Congress ministries were, therefore, faced with a difficult task; they had to do something to satisfy workers' demands but they had to see at the same time that employers did not get too angry or annoyed.⁵⁹

Actually the Congress High Command was very conscious of the predicament in which the ministries found themselves, but it decided that, to avoid a bigger explosion on the labour front, concessions had to be made quickly to the workers. In October 1937 the Congress Labour Committee, after holding consultations with the labour ministers from the Congress-ruled provinces, passed a series of resolutions⁶⁰ aiming at the implementation of the programme of labour welfare chalked out in the Congress election manifesto. Yet the committee took care not to fix any time-limit for the implementation of these measures and left each government free to choose the pace of the reforms. It limited itself to giving general guidelines.

The Congress provincial ministries responded by setting up enquiry committees to look into the question of wages in the textile industry. Such committees were formed in Bombay, the Central Provinces and the United Provinces. They were non-official bodies, in which representatives of capital and labour sat beside political workers and academics. These committees were subjected to contradictory

⁵⁷*Ibid.*

⁵⁸In 1939, 51.4% of workers in the textile mills of the United Provinces and 49.2% in those of Madras were employed in British-controlled mills. Computed on the basis of Annual Statement of Mills, included in *Bombay Millowners' Association. Annual Volume 1939* (Bombay, 1940).

⁵⁹Karnik, *Indian Trade Unions*, p. 110.

⁶⁰Resolutions of the Congress Labour Committee, Wardha, 25–26 October 1937, reproduced in *Indian Annual Register*, 1937, Vol. II, p. 378.

pressures from the unions and from the employers' associations. They generally recommended wage increases which, though substantial, amounted to no more than a partial compensation for the wage cuts made during the depression. Their recommendations could be described as moderate, and in accepting them, the Congress governments showed that, though they were committed to trying to better the lot of the workers, they had no desire to hit capitalist interests too hard. In the case of Cawnpore, the enquiry committee appointed by the Congress government also recommended the recognition of the union, the Mazdoor Sabha, by the employers. The insistence in Cawnpore on the recognition of the union was no doubt due to the fact that it was controlled by Congress workers who were close to the ministry.⁶¹ Elsewhere the question of recognition of the unions was left in abeyance, pending the establishment of a new legislation on trade disputes, which some governments were contemplating for the near future. On the whole, the Congress ministries showed commendable moderation in dealing with uncompromising capitalists. In spite of it, they could not avoid antagonizing capitalist interests.

Apart from the labour policy, the economic and fiscal policies followed by the Congress ministries during their first months of tenure of office had also a direct impact upon their relations with Indian capitalists. These policies were generally characterized by great caution bordering on conservatism. The new Congress ministries barely introduced any change in the budgets prepared by the caretaker governments which had assumed office during the few months of constitutional bickerings prior to the final acceptance of office by the Congress. The boldest step taken by some of the ministries was the issuing of provincial loans which were very successful with the public.⁶²

The only exceptions to this cautious policy were the energetic measures taken by the Bihar and United Provinces governments to solve the overproduction crisis in the sugar industry of those two provinces. Firstly, a joint sugarcane conference, in which the representatives of the growers, manufacturers and traders took part, was convened by the two governments in Lucknow at the end of September.⁶³ Following it and after various consultations with the interests directly concerned, the Government of Bihar passed in the Assembly a sugar factories control bill, which

⁶¹On the labour movement in Cawnpore, see S. M. Pandey, *As Labour Organizes. A Study of Unionism in the Kanpur Textile Industry* (Delhi, 1970).

⁶²In August 1937, five provincial governments, including the Punjab government but excluding Bombay, raised loans. See India Office Records (IOR), Financial collections, F/7/323, IOL.

⁶³See Proceedings of the joint sugarcane conference convened by the Governments of the United Provinces and Bihar and held at Lucknow on September 29 and 30 1937, in Rajendra Prasad Papers, NAI, File XIII/37, Collection I, sr 106.

was soon followed by a similar bill passed by the United Provinces Assembly. Those bills aimed at regulating the supply of cane to the mills, in a way which would ensure remunerative prices for the cultivators and check overproduction. The Congress governments of Bihar and the United Provinces wanted basically to satisfy their rural clientele, especially the middle peasantry which had taken to sugarcane cultivation on a big scale, but they also wanted to conciliate the manufacturers who were a powerful lobby, especially since they had formed in 1937 a combine called the sugar syndicate. Therefore they introduced in their bills a clause which forced all sugar mills to join the syndicate.⁶⁴ This particular clause was irksome to some sugar millowners who had stayed away from the syndicate⁶⁵ but it helped to ensure a high degree of coordination among the producers. The bills proved beneficial to the sugar industry of Bihar and the United Provinces as well as to the growers. The only victim was the consumer, who had to pay a higher price for his sugar. In the case of the sugar industry, the Congress governments acted as mediators between two groups, the growers and the manufacturers, whose interests were easy to conciliate, but who had found it difficult to come to a direct agreement.

In other provinces, initial measures in favour of Indian industry included a review of the purchasing policies of the various government departments, with the aim of increasing the purchase of swadeshi goods,⁶⁶ and the appointment of various committees on industrial policy.⁶⁷

The intentions of the Congress ministries in matters of economic and fiscal policies were made clearer at the time of the preparation of the new budgets for 1938–39, which were the first genuine Congress budgets. By then the financial situation of the provincial governments had slightly improved, following the payment of the first instalment by the Centre from the income-tax receipts.⁶⁸ Yet this increase would

⁶⁴This brief account of sugar policy in Bihar and the United Provinces is based on a Memorandum submitted to the National Planning Committee by the United Provinces Government Industries Department, particularly on pp. 107–8. Copy in AICC Papers, NMML, 1939 File G-14.

⁶⁵See G. D. Birla to Rajendra Prasad, 21 December 1937, Rajendra Prasad Papers, File XIII/37, Collection I, sr 127.

⁶⁶See for instance *Two Years of Congress Rule in Madras*, published by the Madras Legislature Congress Party, undated, p. 38.

⁶⁷In Bombay the government set up an industrial advisory board, the role of which was never very clear, and appointed in March 1938 an Economic and Industrial Survey Committee, to review the position of small industries in the province. See Government of Bombay to Sir Purshottamdas Thakurdas, 23 March 1938, Thakurdas Papers, NMML, File 212.

⁶⁸While the Finance Minister in Bombay had predicted a deficit of ₹10½ lakhs for the financial year 1937–38, there was a final surplus of ₹18½ lakhs, due to the payment of ₹27 lakhs by the Centre from the income tax. *Times of India*, 26 February 1938.

have to be partly used to compensate for the expected loss in excise revenue due to the introduction of prohibition in some provinces.⁶⁹ Therefore there would not be much scope for a large increase in expenditure, unless a government was ready to resort to deficit budgetting. The United Provinces government was the only Congress government which presented a deficit budget for 1938–39.⁷⁰ Other provincial governments pursued a more orthodox policy.⁷¹ Generally the bulk of the small increases in expenditure went to education and rural development, two very Gandhian subjects, and industry got very little.⁷² The Premier of the United Provinces, Pandit Pant, did not hide his rural bias. In a talk to merchants at the end of 1937, he stressed that industrialization would not solve the problem of unemployment to any appreciable extent in his populous province, and pledged to give priority to agricultural development.⁷³ In most provincial budgets, the bulk of the projected increases in aid to industry was directed towards the cottage and small-scale industries, particularly to the production of khaddar.⁷⁴

The policies followed by the Congress governments during their first months in office were generally not very different from those followed by the non-Congress ministries during the dyarchy régime, nor did they differ widely from those followed by the non-Congress governments in the few provinces where the Congress had not come to power. The Congress governments made some concessions to the workers, largely to defuse a tense situation on the labour front, increased to some extent expenditure on rural development and cottage industries to consolidate their power base in the countryside, and generally let the bureaucracy operate with a more or less free hand.⁷⁵ But this cautious policy failed to satisfy the capitalist interests which had hoped for a more active industrial policy. It also created fears that their interests

⁶⁹Prohibition was first introduced in 1937 in the Salem district of the Madras Presidency on an experimental scale, then extended to other districts of the Presidency and other provinces, particularly Bombay.

⁷⁰See details of provincial budgets in annual issues of the *Indian Yearbook*.

⁷¹In Madras the Congress ministry presented regularly surplus budgets. *Ibid*.

⁷²In Bombay the budget presented in the Assembly for 1938–39 included supplementary expenditure of ₹34 lakhs on education, ₹39 lakhs on rural development and only ₹7½ lakhs on industry. *Times of India*, 26 February 1938.

⁷³*The Pioneer*, 13 November 1937.

⁷⁴See *Two years of Congress Rule in Madras*, p. 33: ‘With a view to encourage the production of handloom cloth, the Madras Sale of Cloth Act was enacted and the Khadi (Name Protection) Act was extended to the Province’. ₹2 lakhs were set apart for khadi production in each budget, and grants were given to the All-India Spinners Association.

⁷⁵Thus Giri complains in his Memoirs that the Premier of Madras, Rajagopalachari, tended to favour the British ICS officers and to give them a free hand. Giri, *My Life and Times*, p. 118.

would be endangered. We shall now turn to the response of the business class to Congress policy in the provinces.

The Initial Business Response

While analysing the responses of the Indian capitalists to the policies followed by the Congress provincial governments, one should not overlook the fact that they were not only dictated by provincial events, but also by the state of Indo–British economic relations, in particular by the trade negotiations which were being held between the two governments. The aim of these negotiations was to conclude a new agreement in place of the Ottawa agreement denounced by the Indian Central Legislative Assembly in 1936.⁷⁶ Indian businessmen were represented in those negotiations by Birla, Kasturbhai Lalbhai⁷⁷ and Thakurdas as unofficial advisers to the Government of India. As long as there seemed to be a reasonable chance of reaching a satisfactory agreement with Britain on this question, businessmen were keen to avoid antagonizing the British authorities by extending too open a support to the Congress ministries. The trade negotiations influenced the attitude of the Indian capitalists in another more direct way: any increases in the wages of textile workers, such as were recommended by the various enquiry committees in some of the Congress-ruled provinces, were bound to result in an increase in the production cost of Indian cotton textiles and therefore to render imported textiles more competitive on the Indian market. Indian cotton millowners, still the largest group among Indian capitalists, could not at the same time accept a reduction in the duties on British textiles entering India (a concession which the British Board of Trade urged them to make, in exchange for more advantageous conditions to Indian goods in the UK) and bear increased internal costs of production. This extraneous factor explains largely why Indian capitalists opposed so stubbornly any concessions to workers in matters of wages and therefore came to an open clash with the Congress governments.

Relations between Congress and business became particularly strained in the United Provinces, because of continuous labour unrest among the textile workers in Cawnpore. In that town most of the mills were controlled by British capitalists, yet there was a lot of Indian capital invested in them. Besides, two of the biggest cotton magnates, Sir J. P. Srivastava and Lala Padampat Singhanian, were Indian, the latter also one of the leaders of the Federation of Indian Chambers of Commerce and In-

⁷⁶For a detailed analysis of these negotiations, see Markovits, 'Indian Business and Nationalist Politics', pp. 191–7, and Chatterji's article in this volume.

⁷⁷A big Ahmedabad millowner and a close friend of Gandhi.

dustry (FICCI) and a well-known supporter of the Congress. When the Pant ministry was formed in July 1937, a general strike had been going on in Cawnpore for several weeks. After some initial hesitation, the new ministry decided to ask the millowners to make one major concession to the workers by recognizing the Mazdoor Sabha. The capitalists, both British and Indian, who had formed the Employers' Association of Northern India to defend their interests against labour,⁷⁸ were most reluctant to accord recognition as they alleged that the Mazdoor Sabha was not a genuine union, but a political organization preaching the overthrow of the capitalist system. Eventually they were forced to give in to Government pressure, but they resented it considerably.⁷⁹ In fact, they never forgave the United Provinces Congress government for having sided with the workers. A few years later in the course of a private conversation Sir J. P. Srivastava revealed that the Indian industrialists of Cawnpore, all Hindu, became thereafter such bitter opponents of the Congress ministry that they went to the length of subsidizing the Muslim League in the province.⁸⁰ Another result of the strike was the appointment of the Cawnpore Labour Enquiry Committee to look into the question of wages in the textile industry. While the committee was doing its work, the millowners under the pretext of an incident in a mill, withdrew their recognition of the Mazdoor Sabha.⁸¹ Therefore, when the committee submitted its report in April 1938 recommending a twenty-one % increase in wages in the textile industry (it only amounted to a restoration of three-fifths of the wage cuts made during the depression), the situation was tense, and the rejection of the report by the Employers' Association triggered off a new general strike which lasted almost two months. Once again the question of the recognition of the Mazdoor Sabha became the main issue of contention between the two parties. During this second strike, the Government, under pressure from the local Congress organization, gave some support, though half-hearted, to the strikers,⁸² and eventually the millowners had

⁷⁸ See Pandey, *As Labour Organizes*, pp. 54 ff.

⁷⁹ In a communiqué, the employers said that they felt that they should not have been forced by government to recognize the Mazdoor Sabha as long as it remains constituted as at present'. *The Pioneer*, 12 August 1937.

⁸⁰ In *The Viceroy's Journal* (London, 1973), p. 102, entry for 30 November 1944, Lord Wavell writes: 'Srivastava [then a minister in Wavell's cabinet] ... today told me that after the Congress success at the polls and assumption of office in the United Provinces in 1937, the leading industrialists — all, I think, Hindu — got together and decided to finance Jinnah and the Muslim League and also the Mahasabha, as the extreme communal parties, to oppose Congress who they feared might threaten their financial profits.'

⁸¹ *The Pioneer*, 30 November 1937.

⁸² On 19 May 1938 Pandit Pant, receiving a workers' delegation, chided them for their lack of discipline. *The Leader*, 21 May 1938. But on 23 May, the United Provinces Congress Committee passed

to give in again, though in the course of their negotiations with the ministry they managed to make their recognition of the Sabha conditional upon changes in its internal constitution. The attitude of the Government came in for strong criticism even from Singhanian, a Congress supporter,⁸³ and in the United Provinces relations between Indian business and the Congress remained tense.

In the United Provinces, the Indian capitalists took a very uncompromising line in their dealings with the industrial workers and resented the attempts at arbitration made by the Congress ministry, because they thought that the government's mind was biased in favour of labour. There are specific reasons for the failure of the Congress and the capitalists to find an adjustment. One of the reasons was the weight of the British in the capitalist class of the United Provinces, and the close links between them and Indian capitalists. British capitalists had no reason to be particularly friendly to a Congress ministry, and their stand influenced their Indian colleagues. Another factor leading to confrontation was the strong position enjoyed by the Congress socialists and other leftist elements in the Congress provincial organization. These forces were able to pressurize the ministry into taking a stand in favour of the workers, thus further antagonizing the capitalists.

In other Congress-ruled provinces Indian businessmen generally followed a less uncompromising line, but this did not prevent limited clashes with the provincial governments. In the Bombay Presidency, where the bulk of the cotton textile industry was concentrated, the Congress ministry immediately set up a Textile Enquiry Committee to review the wage situation in the textile centres of the province. Businessmen complained that they were not sufficiently represented on the committee, and they opposed the demands of the unions for a sizable increase in wages, under the pretext that the financial situation of the mills was precarious.⁸⁴ The proposals of the committee, embodied in the interim report released in February 1938,⁸⁵ were a compromise between the extreme demands of labour and the negative stand taken by the millowners. The immediate increases granted were not negligible⁸⁶ and they seemed to satisfy most workers, if not the most militant section of the working class.

a resolution supporting the strikers and thereafter the attitude of the ministry to the strike changed. *Ibid.*, 25 May 1938. On 12 June the Government asked for the implementation of the recommendations of the report. *Ibid.*, 14 June 1938.

⁸³*The Leader*, 29 June 1938.

⁸⁴See Evidence of the Bombay Millowners' Association before the Textile Enquiry Committee, *Indian Textile Journal*, 15 December 1937, p. 84.

⁸⁵See *Textile Labour Enquiry Committee*, Vol. I, Preliminary Report (Bombay, 1938).

⁸⁶They were fixed at 9% in Ahmedabad, where wages were the highest in India, at 11.9% in Bombay and at 14.3% in Sholapur, the third big textile centre in the province, where wages were particularly low.

The millowners, according to the Governor of Bombay, Sir Roger Lumley, 'took some time in making up their minds',⁸⁷ but faced with the possibility of a general strike, they had no choice but to accept the recommendations of the committee. Yet the *Indian Textile Journal*, the mouthpiece of the Bombay millowners, did not hesitate to accuse the Bombay government of having played upon the threat of a strike to force them into accepting those recommendations.⁸⁸

According to Lumley, the millowners, in exchange for their acceptance of the report, were able to extract from the ministry the promise that it would not introduce any new labour welfare measures for at least one year.⁸⁹ The Bombay government also committed itself to seeking an agreement with the Centre and other provincial governments for the standardization of wages in the textile industry on an all-India scale, so that the millowners in the Bombay Presidency would not find themselves handicapped *vis-à-vis* their upcountry competitors, the millowners of other provinces and of the Indian States, who did not have to contend with similar burdens.

Though in March 1938 Lumley could write about the new outlook in Bombay that 'the prospect of serious labour trouble in the mills' had 'faded away',⁹⁰ and could rightly ascribe the change in the labour situation to the advent of a Congress ministry, the price paid by the millowners for industrial peace was indeed heavy. The foreseeable increase in the production costs of Indian textiles reduced the chances of reaching an agreement with Lancashire over the question of the duties on British textiles, and thus the Indo-British trade negotiations, the final success of which had become dependent on a direct agreement between Indian and British textile manufacturers,⁹¹ were more or less doomed to failure.

In other Congress-ruled provinces, capitalists faced with similar labour unrest also made concessions on wages. This was the case in Coimbatore where, following a strike in the mills, the Madras government referred the problem to a court of enquiry

⁸⁷Lumley to Linlithgow, report no. 12, 15 March 1938, Linlithgow Papers, Vol. 51.

⁸⁸*Indian Textile Journal*, 15 March 1938, p. 192.

⁸⁹Lumley wrote to Linlithgow: 'My information is that the decision of the millowners was not reached without some very plain speaking by the Congress Ahmedabad millowners to the ministers. I understand that these millowners, in heated interviews, pointed out that they had supplied in the past a large part of the Congress funds and that they were now receiving in return from the Congress governments very heavy burdens to bear. They extracted from the Ministers and from Sardar Vallabhbhai Patel a promise that further legislation providing sickness benefit and old-age pensions for the workers, the cost of which would be mainly borne by the millowners, should not be put into operation for at least a year.' Report no 12, 15 March 1938, Linlithgow Papers, Vol. 51.

⁹⁰Lumley to Linlithgow, *ibid.*

⁹¹For a detailed account, see Markovits, 'Indian Business and Nationalist Politics', pp. 191–7.

whose rulings were accepted by both parties, and in the Central Provinces where an enquiry committee was set up on the Bombay model.

Thus in those Congress-ruled provinces which had a textile industry, the millowners were forced to make some concessions to labour in order to avoid more widespread trouble. Generally the Congress ministries took an attitude which, though only mildly sympathetic to labour, was enough to create suspicions among the capitalists that the Congress was becoming hostile to them. Actually it could be argued that by pressurizing the industrialists into giving in to moderate labour demands, the Congress saved them from a more dangerous confrontation. But most Indian capitalists were not farsighted enough to perceive this, and they tended to see only the immediate cost incurred by them from the policies of the Congress governments.

There were also differences in the responses of the capitalists, which were directly linked to the state of their relations with the Congress organizations in their respective provinces. In that respect, the United Provinces and Bombay represented two extreme cases. In the United Provinces, relations between local big business and the Congress had been strained for a long time, and among Congress national leaders it was Nehru, not a great friend of the capitalists,⁹² who wielded the greatest influence. The labour trouble in Cawnpore brought these already strained relations to a breaking point. In Bombay, big business, particularly the Ahmedabad millowners, had played a great part in Congress politics for many years, and benefited from close links with Patel, who kept a close watch on the activities of the Bombay ministry. Ready access to the ministry allowed local capitalists to negotiate when problems arose and often reach some kind of compromise.

Indian capitalists, generally dissatisfied with the labour policies of the Congress ministries, could not find great compensations in their economic policies. It is not that they had exaggerated expectations in that matter. They were very conscious of the many limitations under which the Congress ministries had to function, but they pointed out that even within such a restricted framework as that of provincial autonomy the ministries had powers 'which they could exercise for the development and progress of trade and industry'.⁹³ Speaking in March 1937 at the annual conference of Indian insurance companies, the Bombay business magnate Walchand Hirachand had expressed the hope that in the future Congress governments would be able 'to

⁹²In 1936 many Bombay capitalists had condemned his socialist views, and though in the following period he had become more moderate, he was nevertheless still suspect in the eyes of many businessmen.

⁹³M. C. Ghia, Vice-President of the Indian Merchants Chamber in a speech at a function in Bombay in honour of B. G. Kher, *Times of India*, 26 July 1937.

act in such a way ... as to directly benefit Swadeshi enterprises'.⁹⁴ Yet, the actual policies of the Congress ministries during their first months in office disappointed even their supporters in the business class. In March 1938, the *Indian Textile Journal* came out with a severe condemnation of the industrial policy of the Congress governments and asked: 'Would the Congress play into the hands of the enemies of the industrial advancement of the country?'⁹⁵

The discontent in business circles with the policy of the Congress in the provinces manifested itself in the tendency by big business groups to step up investment in the non-Congress provinces and even more in the Indian States. The exact extent of this movement is difficult to gauge but a few striking examples suggest that it was not altogether negligible.⁹⁶ Even pro-Congress businessmen, like Lala Padampat Singhania of Cawnpore, increasingly preferred to set up new factories in the Indian States where wages were lower, labour legislation almost non-existent, and taxation practically nil. Apart from the immediate profit motivation, such investments were also a clear, though discreet, way of conveying to the Congress leadership that the policies followed by the Congress ministries were antagonizing Indian capitalist interests.

What was also significant of the mood in Indian business was that in the face of the growing challenge from labour and the ambiguous attitude of the Congress, capitalists tended to close their ranks and to forget old enmities and feuds. In Cawnpore, the millowners, British and Indian, pro-Congress and anti-Congress, displayed remarkable unity in their fight against the Mazdoor Sabha and in their difficult negotiations with the Congress ministry. In the Bombay Presidency, the old rivalry between the textile manufacturers of Ahmedabad and Bombay City became less apparent. The Ahmedabad millowners used their own good relations with the ministry and Patel to negotiate on behalf of the entire textile industry of the province. Sectional differences among capitalists were becoming less acute and all-India organizations such as the FICCI were strengthening themselves. In what amounted to a spectacular break with a ten-year-old policy, the Tatas, the biggest Indian business group joined the FICCI in 1937. Their move was directly related to the advent of the Congress ministries: the Tatas, who had the bulk of their interests in the Congress-ruled provinces of Bombay, Bihar and the Central Provinces, wanted to benefit from the privileged relationship existing between the FICCI and the Congress. But at the same time it testified to the growing trend of unity among Indian capitalists in a

⁹⁴ *Times of India*, 8 March 1937.

⁹⁵ *Indian Textile Journal*, 15 March 1938, p. 200, 'The State and Industries'.

⁹⁶ Business groups which invested in the Indian States in 1937–39 included: Singhania (in Bhopal), Srivastava (in Rampur), Tata (in Baroda), Sassoon (in Travancore). This list is not exhaustive.

threatening environment.

It seems that by the spring of 1938 the Congress High Command became aware of the danger of letting its good relations with the Indian business class be threatened by the policies of the provincial ministries. Pressure from the top leadership probably explains in part the shift which became noticeable in the labour and economic policies of the Congress ministries at that time.

The Shift in the Policies of the Congress Governments and the Improvement in Relations between Congress and Business

In the spring of 1938, the Congress governments started making efforts at placating capitalist interests and at improving their relations with the business world. The persistence of labour unrest in the Congress-ruled provinces even after substantial wage increases had been granted to the workers was a decisive factor. Congress politicians became increasingly suspicious of the motivations of the labour leaders in launching agitations, and they started to view communist infiltration as the root-cause of all the trouble. This led to a new policy in the matter of trade unions. Previously, the Congress leadership had sought adjustments with the existing organizations, particularly the All India Trade Union Congress (AITUC) and the National Trade Union Federation (NTUF), the two biggest federations, which had set up a joint council in 1938 to coordinate their activities. But none of these organizations was controlled by elements close to the Congress leadership: the AITUC was led by a coalition of Congress socialists and communists while the NTUF was the preserve of moderate politicians linked to the Servants of India Society. They were therefore not amenable to direct pressure from the Congress High Command and the latter had thus no way of directly controlling the labour movement. In the spring of 1938 the Congress leadership decided to set up a new movement which would be under their control, and would be organized on the model of the Ahmedabad Mazdoor Mahajan, a Gandhian union which had established amicable relations with the employers in that big textile centre. In an interview to the *Bombay Chronicle* Patel stressed the necessity of having workers' organizations which did not believe in the policy of class struggle, and he chided the existing unions.⁹⁷ Congress leaders made use of the Gandhi Sevak Sangh to create the nucleus of the future Hind Mazdoor Sabha (HMS) which became for a few years the labour branch of the Congress, prior to the

⁹⁷*Bombay Chronicle*, 29 March 1938.

creation of the Indian National Trade Union Congress (INTUC). Not surprisingly the Bombay government was in the forefront of the attempts at setting up new, more docile unions. The Minister for Local Government, L. M. Patil, proclaimed the intention of the Bombay Provincial Congress Committee to start their own working class organizations.⁹⁸ The Bombay Chief Minister, B. G. Kher, came under attack from trade unionists for using government money in order to help form pro-Congress unions.⁹⁹ But the main thrust in the new labour policy of the Congress governments was towards the introduction of a new legislation on labour relations, which would help to establish durable industrial peace in the provinces, and thus check the flow of capital towards the Indian States.

The existing legislation, both central and provincial, had been effective in checking the growth of the trade union movement but it had no proper machinery for the settlement of industrial disputes. New legislation was mainly aimed at remedying this defect. The Madras government, dismayed by the spate of labour conflicts in this traditionally peaceful province, was the first one to move in that direction. On 22 April 1938 the Labour Minister, V. V. Giri, presented the draft of a bill under the name of Madras Industrial Disputes Investigation and Settlement Act.¹⁰⁰ In Madras it never reached the statute book, but it served as the basis of similar attempts in other provinces. In Bombay, the Congress ministry took up the matter seriously and 'improved' considerably Giri's initial draft. In September 1938 they submitted to the Provincial Legislature the Bombay Trade Disputes Act, which was the most complex and effective piece of legislation ever devised in India for the settlement of industrial disputes. Though a provision for compulsory arbitration initially introduced by the framers of the bill was deleted from the final version,¹⁰¹ the bill included a provision for a compulsory delay which could extend to several months before a strike or a lock-out could begin, a measure which drew applauses from the Governor of Bombay himself.¹⁰² Introducing the bill in the Bombay Legislative Assembly, Kher made clear the intention of his government 'to promote legislation aiming at the prevention of strikes and lock-outs as far as possible'.¹⁰³ Though the bill was theoretically aimed

⁹⁸Quoted in Revri, *Indian Trade Union Movement*, p. 232.

⁹⁹Patel wrote to Kher in a letter dated 9 July 1938: 'the trade-union people have already begun to howl at you for employing men at government expense to organize labour unions rival to the trade-unions organized by non-officials.' Kher Papers, NMML, File 6.

¹⁰⁰Copy enclosed in Giri to Kripalani, 14 July 1938, AICC Papers, NMML, File PL 3(1), 1937.

¹⁰¹Dwarkadas, *Forty-five Years with Labour*, p. 79.

¹⁰²Lumley to Linlithgow, Report dated 15 September 1938, Linlithgow Papers, Vol. 51.

¹⁰³Bombay Legislative Assembly debates, 2 September 1938, quoted in *Indian Annual Register*, 1938, Vol. II, p. 149.

as much at lock-outs as at strikes, it was nevertheless obvious that its framers were above all interested in stopping strikes. In any case, as lock-outs were generally declared in retaliation for strikes, it could be assumed that if there were no more strikes the incidence of lock-outs would tend to be less. The intention of curbing strikes was openly avowed by the Chief Minister who, in his Assembly speech, condemned labour unrest in the strongest terms and proclaimed that 'his government stood for class collaboration and not for class conflict'.¹⁰⁴

Though the framers of the bill pretended to keep a balance between capital and labour, a detailed examination of its many clauses brings out the fact that it was heavily weighted in favour of the capitalist side. For instance, though strikes and lock-outs were apparently put on the same footing, only strikes were penalized and not lock-outs.¹⁰⁵ The penalty for illegal strikes, which was six months imprisonment, was extremely high. There was also a complex clause regarding the registration of trade unions about which Nehru who, surprisingly enough, stated in a confidential note that 'on the whole the Act seemed a good one',¹⁰⁶ remarked that 'company unions' were 'definitely encouraged and given very great advantages over independent unions'. He also criticized the encouragement given in the bill to occupational unions, underlining that it would 'lead to the formation of numerous petty unions, usually on caste and community lines'.

The bill met with strong opposition in the Legislative Assembly from trade unionists, Ambedkar's independent labourites and the Muslim League, but the government was in such a hurry to have it passed that it did not even allow the formation of a Select Committee to look more closely into its merits. Eventually the Bill was passed on 5 November 1938 amidst angry scenes.¹⁰⁷ The haste with which the government acted showed that they wanted to put the bill into effect as soon as possible in order to establish their control over the labour movement in Bombay.

Yet the immediate effect of the passing of the bill was to provoke a general strike in the Bombay Presidency in protest against the 'Black Act', as well as demonstrations of solidarity in the other provinces. In Bombay city, the strike was joined by approximately half of the millhands, but it failed to gain much support in Ahmedabad and Sholapur.¹⁰⁸ The determined way in which the police under the Congress

¹⁰⁴ *Ibid.*, 4 September 1938, *ibid.*, p. 157.

¹⁰⁵ For a detailed analysis of the main provisions of the bill, see Revri, *Indian Trade Union Movement*, p. 226 ff.

¹⁰⁶ Confidential note on Bombay Trade Disputes Act, 14 December 1938, Nehru Papers, NMML, File 150.

¹⁰⁷ *Times of India*, 6 November 1938.

¹⁰⁸ Lumley to Linlithgow, report dated 15 November 1938, Linlithgow papers, Vol. 51.

Raj dealt with the strikers¹⁰⁹ shocked the public,¹¹⁰ but it showed that the ministry was determined to curb labour unrest at any cost.

The firm stand taken by the government against the general strike earned for it the approval of the Bombay capitalists, who had their own initial reservations regarding some of the clauses of the bill.¹¹¹ They could now forget them and look forward to an improvement in the labour situation in the province. The turn in government labour policy was soon epitomized by its attitude to the Bombay seamen's strike of December 1938. Not only did it refuse any kind of support to the strikers, but it even adopted harsh repressive measures against them.¹¹² The fact that many seamen in Bombay were employed by Scindia, the big navigation company led by Walchand Hirachand who had links with the ministry, might also partly account for the special callousness displayed by the Congress ministry.

The new attitude of the Congress governments *vis-à-vis* labour, much in evidence in Bombay, manifested itself also in other Congress-ruled provinces. In the United Provinces, after the conditional recognition of the Mazdoor Sabha by the employers and its capture by communist elements, labour trouble remained endemic in Cawnpore, but the Congress ministry ceased to show sympathy to the workers.¹¹³ In Bihar, where conflict erupted in the Dalmia and Tata factories, which employed the bulk of industrial labour in the province, the government tried to reassure capitalists and contemplated the introduction of a trade disputes act on the Bombay model.¹¹⁴

During 1939, as compared to 1938, although there was a slight increase in the number of industrial disputes in India, the number of workers involved and days lost showed a downward trend, and strikes tended to be shorter in duration.¹¹⁵ It is difficult to know if the new legislation in Bombay had an impact, since it came into operation only at the end of the year. What is clear is that the rapid pace of growth

¹⁰⁹The police opened fire upon demonstrators in different places in town, resulting in several dead and many injured. *Times of India*, 8 November 1938.

¹¹⁰The government had to agree to the setting up of a committee to enquire into the disturbances.

¹¹¹Lumley wrote to Linlithgow in his report dated 15 September 1938 that the millowners feared that the 'cumbrous machinery' set up by the Act would make it difficult for them to introduce changes in their way of operating their factories. Linlithgow Papers, Vol. 51.

¹¹²See Karnik, *Indian Trade Unions*, pp. 114–15.

¹¹³In July 1939, the relations between the provincial trade union Congress and the provincial government reached the breaking-point, following a letter sent by the government to the Mazdoor Sabha, in which they had objected strongly to the preaching of class hatred by trade unions. *The Leader*, 14 July 1939.

¹¹⁴*The Leader*, 8 December 1938.

¹¹⁵In 1939, there were 406 disputes, involving 409,075 workers and resulting in the loss of 4,992,795 man-days. Revri, *Indian Trade Union Movement*, p. 260.

of the trade union movement in 1937–38 did not continue.¹¹⁶

If there were no spectacular strikes comparable to the Cawnpore strike of 1938, a disturbing trend from the capitalists' point of view was the appearance of a new phenomenon, the stay-in-strike. The first one took place in a Bombay textile mill in April 1939, and was strongly condemned by the provincial government.¹¹⁷ It then spread to Madras and the Chief Minister, Rajagopalachari, indicted it in the severest terms in the Legislative Assembly.¹¹⁸ Both ministries insisted upon the illegal character of such actions, but the existing legislation was not equipped to deal specifically with stay-in strikes. Therefore, in 1939, though there was some improvement on the labour front, industrial peace remained an elusive goal.

While the new labour policy adopted by the Congress ministries did not succeed in radically curbing labour unrest, it was nevertheless a welcome development for Indian capitalists. It showed that their fears of seeing the Congress adopt a line of hostility to capitalist interests were unfounded. The Congress was in fact striving for conciliation of different class interests: once it had given some satisfaction to the workers, it naturally tended to conciliate business interests. The Congress left was not strong enough to oppose that policy, although in one or two provinces it could influence government policy to a certain extent and make more difficult an adjustment with the capitalists.

There were also encouraging signs in the economic policies of the provincial governments, although concrete advantages gained by businessmen from such policies remained necessarily limited. The High Command increasingly tended to intervene on behalf of capitalist interests with the various provincial governments. Thus in July 1938 Patel, in a circular addressed to all the Congress chief ministers,¹¹⁹ urged them to insure all government business with genuine swadeshi companies. He also asked them to put pressure on the textile industry and other protected industries to do the same. In February 1939, the AICC assured a big Indian chemicals firm that their instructions to the Provincial Governments were 'to patronise Indian industries in preference to foreign industries'.¹²⁰ In August 1939, Patel intervened personally with the Bombay Chief Minister to prevent the granting of a license for the electrification of Gujarat to a big British firm.¹²¹ In Bombay the provincial government

¹¹⁶ Membership of registered trade unions showed little change between 1938 and 1939. *Ibid.*, p. 234.

¹¹⁷ Dwarkadas, *Forty-five Years with Labour*, p. 56.

¹¹⁸ *Ibid.*

¹¹⁹ Patel to Kher, 1 July 1939, Kher Papers, File 6.

¹²⁰ AICC to Alembic Chemical Works, 4 February 1939, AICC Papers, File G-72, 1938.

¹²¹ In a letter to Kher, dated 3 August 1939, Patel urged the Chief Minister to refuse the license to the British firm of Killick Nixon which already held the license for Ahmedabad. Kher Papers, File 6. Yet

gave its guarantee to a few industrial projects, and thus helped their promoters to raise capital for them.¹²² The Madras Cabinet, urged by Patel, helped a big cement combine to get a license for the exploitation of a mineral quarry.¹²³ During the last phase of the Congress rule in the provinces, closer links were established between capitalist interests and Congress politicians, particularly in Bombay, but naturally there is little factual evidence available on such matters.

The improvement in the relations between Indian business and the Congress provincial governments facilitated the work of the National Planning Committee set up by the Congress at the end of 1938. Actually the decision of setting up such a committee was taken at a conference of industries ministers of the provincial governments. Business observers also took part, and Indian big business was fully associated with the work of the committee, which benefited from the active collaboration of the Congress ministries.¹²⁴ The conference also considered the possibilities of taking some immediate measures for the development of medium-scale industries in some of the provinces. An All-India Planning Commission was entrusted with the task of drafting a programme of immediate action,¹²⁵ but its work was cut short by the war and the resignation of the Congress ministries.

The rapprochement between Indian business and the Congress was facilitated by the breach which took place between the unofficial advisers and the Government of India in the Indo-British trade negotiations. It started with the failure of the direct talks held in Simla in May 1938 between a Lancashire delegation and the representatives of the Indian textile industry.¹²⁶ Then after a few more months of protracted negotiations, in September 1938 the unofficial advisers advocated rejection of the last offer of the British Board of Trade; and the final negotiation

such interventions directed specifically against British firms were very rare.

¹²²In a letter to Kher dated 5 July 1939, Manu Subedar, of the Indian Merchants' Chamber, protested against the stand of the Bombay government in giving its guarantee to the capital sunk in one or more industrial venture'. Kher Papers, File 6.

¹²³C. M. Kothari, a Gujerati businessman of Madras, wrote to his friend Thakurdas in a letter dated 17 March 1938: 'there was a regular tussle in the Cabinet meeting to give the lease [of Trichinopoly] to Narayandas Girdhardas [a Madras businessman] and not to C. P. company [part of the Associated Cement Companies combine] and everyone of the ministers was in favour of giving the same to him, except Rajaji and Dr. Subborayan. In that meeting Rajaji read a letter from Vallabhbhai mentioning amongst other things that the lease may be given to C. P. Cement Co. as the company has necessary capital.' Thakurdas Papers, File 206.

¹²⁴The Madras ministry was the only one to show a reluctance to collaborate. Giri, *My Life and Times*, p. 161.

¹²⁵There is a detailed account of the conference in *Indian Annual Register*, 1938, Vol. pp. 288–292.

¹²⁶Markovits, 'Indian Business and Nationalist Politics', p. 197.

resulting in the March 1939 agreement took place only between officials, the business community not being associated any more in the process.¹²⁷ The policies of the Congress ministries had a direct effect on the negotiations, insofar as they refused to give the advisers any guarantee that they would not impose any more burdens upon the textile industry, thus preventing the latter from making concessions to Lancashire which would have permitted a settlement with the Board of Trade.¹²⁸

The March 1939 agreement drew unanimous condemnation in India from political as well as from business circles. It helped to consolidate further the rapprochement between business and the Congress at the national level; but from the end of 1938 onwards financial difficulties in the provinces had put the relations between Indian business and the Congress governments under fresh strain and threatened to cancel all the gains made during the previous period.

The Final Phase of the Congress Ministries: New Strains in Congress–Business Relations

Towards the end of 1938, the Congress provincial ministries faced an impending financial crisis, and they resorted to measures which alienated capitalist interests to a certain extent. The framing of the new budgets for 1939–40 forced the ministries to take a closer look at the precarious condition of their finances, due on the one hand to the loss of revenue caused by the introduction of prohibition, and on the other hand to the necessity of increasing expenditure if projected measures for rural upliftment were to be effectively implemented. During the debate on the budget in the United Provinces Legislative Assembly in March 1939, Sir J. P. Srivastava pointed out that in the last twenty months the provincial government had incurred supplementary expenditure up to ₹1.6 crores, while the loss in its excise revenue due to prohibition amounted to ₹0.4 crores. Therefore supplementary resources of

¹²⁷*Ibid.*, pp. 229–32.

¹²⁸See the correspondence between Thakurdas, one of the unofficial advisers and Iyengar, Secretary to the Government of Bombay, Finance Department, in August 1938. In a letter dated 18 August Thakurdas wrote: ‘if the textile industry is to make the sacrifice indicated in the proposals [of the Board of Trade] under piece goods and prints, obviously they will not be able to stand any more burden which provincial governments in India may have in mind to put on them’. Copy in Kher Papers, II, File 3. In a letter dated 25 August, Iyengar replied that it was impossible for the ministers to commit themselves in advance on the final outcome of the labour enquiry committee and that they considered ‘that the terms of the Indo–British pact must be judged on the basis of the facts as they are today’. Copy enclosed in Irwin, Secretary to the Governor of Bombay, to Puckle, Secretary to the Viceroy, Linlithgow Papers, Vol. 52.

2 crores had to be found, of which approximately 1.3 crores were already provided by the levy of various small taxes and duties, but there remained a balance of ₹0.7 crores.¹²⁹ Though the United Provinces were a special case even a financially sound province like Bombay was also looking for new sources of revenue.¹³⁰ The Congress ministries had therefore no alternative but to increase taxation, however unpopular such a move was bound to be. The only choice which they could exercise was, which categories of the population would have to bear the burden of the increase. Though Bihar and Assam, two almost exclusively agricultural provinces, tried to introduce an agricultural income tax, Congress ministries in other provinces sought to avoid taking such a step which would create opposition to the Party in the countryside, especially among the landholding classes which were the main power base of the Congress régimes. Therefore they decided to shift the main burden towards the less inflammable and less strategic urban areas.

The possibilities of levying new taxes were severely limited by the constitution, which reserved the levy of income tax of any kind to the Central Government. The United Provinces government tried to get around the difficulty by introducing an employments tax, which was an indirect way of taxing the incomes of merchants and employers of labour. Not surprisingly their proposal met with determined opposition from the trading and industrial interests of the province. After the employments tax bill had been passed by the Assembly on 16 April 1939, a protest conference was convened, in which prominent businessmen participated.¹³¹ A few days later a memorandum was sent to the Viceroy by seven associations representing the bulk of commercial and industrial capital in the province, underlining that the tax was *ultra vires* of a provincial government, and asking the Viceroy to refer the case to the newly-established Federal Court.¹³² The last months of Congress rule in the United provinces saw the local business class put up a stiff fight against the financial policy of the Congress ministry.

In other Congress-ruled provinces the ministries generally followed a more cautious policy, and the projected increases in taxation were less, but even the modest

¹²⁹United Provinces Legislative Assembly debates, 13 March 1939, quoted in *Indian Annual Register*, 1939, Vol. I, p. 220. The budget presented for 1939–40 made for a deficit of ₹38 lakhs, of which ₹30 lakhs were to be covered by the employments tax.

¹³⁰Lumley to Linlithgow, 26 December 1938, Linlithgow Papers, Vol. 52.

¹³¹*The Leader*, 19 April 1939.

¹³²Memorandum submitted by the Upper India Chamber of Commerce, the United Provinces Chamber of Commerce, the Merchants' Chamber of the United Provinces, the Indian Sugar Producers' Association, the Employers' Association of Northern India, the Cawnpore Sugar Merchants' Association, the Cawnpore Sugar Brokers' Association. *The Leader*, 20 April 1939.

proposals regarding taxation of urban incomes were strongly resented by the business class. In Bombay the ministry sought to increase the electricity duty, and to introduce an urban immovable property tax, as well as a sales tax on petrol and cloth.¹³³ In Madras the Rajagopalachari ministry moved a bill for the imposition of a general sales tax, which the Chief Minister defended openly on the ground that part of the burden of taxation had to be shifted from the cultivator to the urban trader.¹³⁴

In Bombay, business opposition to the financial policy of the ministry centred around the urban property tax and the sales tax on cloth. Opposition to the former ran high, because of the speculative boom which had been taking place in Bombay for many years and had incited many traders to invest heavily in urban properties. A renowned economist defended the proposal on the ground that it would help to curb unhealthy speculation, and would act as an incentive to investment in industry, thus ultimately proving a boon to capitalist interests;¹³⁵ but these sophisticated arguments cut no ice with the merchant classes which continued to agitate against the bill until the resignation of the ministry.¹³⁶

The sales tax on cloth raised an even stronger storm in the textile industry, although in that case also it was argued by a pro-Congress economist that since the tax would be levied on imported cloth as well, it would not have an adverse effect on the local mills.¹³⁷ The unexpectedly violent reaction of the millowners to this relatively minor issue could be explained by the difficult situation in which the textile industry in the Bombay Presidency found itself in 1939, after a few years of continuous prosperity. The major causes of the new difficulties seem to have been the bad crops which reduced the purchasing power of the peasantry, the renewed vigour of the Japanese offensive on the Indian market,¹³⁸ and the increased competition from upcountry mills in India where the cost of labour was lower than in the Bombay Presidency. In July 1939, in Bombay city alone four mills had been forced to close down, making 18,000 workers idle, while most of the mills had ceased to work a full double-shift.¹³⁹

¹³³ See Lumley to Linlithgow, report dated 15 February 1939, Linlithgow Papers, Vol. 52.

¹³⁴ In a speech in the Madras Legislative Assembly on 16 March 1939, quoted in *Indian Annual Register*, 1939, vol. I, p. 182. On this occasion Rajagopalachari castigated merchants and traders for their refusal 'to pay even one pie out of one rupee'.

¹³⁵ C. N. Vakil in *Times of India*, 21 February 1939.

¹³⁶ An added factor was that many property-holders were Muslims, which gave the agitation a communal turn.

¹³⁷ V. K. R. V. Rao, in *Bombay Chronicle*, 21 February 1939.

¹³⁸ In 1938–39, sales of Japanese piecegoods showed an increase of 40% over the figures for the previous year. Computed on the basis of data in A. K. Bagchi, *Private Investment in India, 1900–1939* (Cambridge, 1972), p. 238.

¹³⁹ 'Indian Textile Industry in the Doldrums', *Indian Textile Journal*, 15 July 1939, P. 392.

This difficult situation led the millowners to oppose fiercely all attempts at imposing supplementary burdens on them. In March 1939, Kasturbhai Lalbhai a friend of the Congress, delivered a scathing attack on the policies of the Congress governments towards the textile industry.¹⁴⁰ From April 1939 onwards, Lumley saw evidence of a 'widening breach between Congress and the millowners'.¹⁴¹ The latter tried to avoid giving their workers the supplementary wage increase to which they had committed themselves in accepting the recommendations of the *Textile Labour Enquiry Committee*, but they could not bring the government to support them, and eventually had to pay up.¹⁴² Failure to avoid an increase in their labour costs prompted the Bombay and Ahmedabad millowners to try to obtain the agreement of the entire textile industry to a scheme of reduction of output.¹⁴³ But millowners in other regions, less hit by the crisis, refused to countenance the scheme and the industrialists of Western India were left in the lurch.¹⁴⁴

They were more successful in their fight against the proposal for the fixation of a minimum wage, which the Textile Labour Enquiry Committee, still working on its final report, was known to be contemplating. In August 1939, Gulzarilal Nanda, Parliamentary Secretary to the Government of Bombay, and the real power in matters of labour policy, hinted, while the committee were still sitting, that in view of the difficult situation in the textile industry, the government would oppose any move tending to put up wages.¹⁴⁵

With the worsening of the situation in September 1939, the millowners sought more radical measures. Thus the Ahmedabad millowners obtained the agreement from Patel to a twenty % cut in wages, to be implemented after discussions with the unions.¹⁴⁶ Yet the same Patel restrained the Bombay Government from sanctioning a twenty % increase in the price of cloth, as demanded by the industry.¹⁴⁷ Therefore just on the eve of the war, which suddenly ended the crisis, the situation in the textile industry of the Bombay Presidency was so chaotic that it tended to affect

¹⁴⁰In an interview to the *Times of India*, 3 March 1939, he complained that the provincial governments were 'out to crush' the cotton textile industry.

¹⁴¹Lumley to Linlithgow, report dated 15 April 1939, Linlithgow Papers, Vol. 52.

¹⁴²Lumley to Linlithgow, report dated 15 May 1939, *ibid.*

¹⁴³*Indian Textile Journal*, 15 July 1939, p. 392.

¹⁴⁴*Ibid.*, 15 August 1939, p. 431.

¹⁴⁵Gulzarilal Nanda to Bombay Provincial Congress Committee, quoted in *Indian Textile Journal*, 15 August 1939, p. 430.

¹⁴⁶*Ibid.*, p. 431. One wing in the Ahmedabad Millowners' Association led by Kasturbhai Lalbhai agreed with Patel's proposal to hold discussions with the unions, while another section, headed by Sakarlal Balabhai, advocated unilateral measures.

¹⁴⁷Patel to Kher, 17 September 1939, Kher Papers, File 6.

adversely the relations between the largest group of capitalists in the province and the Congress ministry.

Apart from the United Provinces and Bombay, other provinces also witnessed a deterioration in the relations between Indian business and the Congress. In Madras, where there was tremendous opposition to the sales tax proposal from the merchant community, a new provincial loan met with little success, a fact which the Governor of the province attributed to the hostility of capitalist interests to the Congress ministry.¹⁴⁸ In Bihar, renewed trouble in the Tata factories created a tense atmosphere.¹⁴⁹

The financial difficulties which the Congress ministries had to face made an adjustment between the overall compulsions of governmental action in the provinces and the sectional interests of Indian business more and more difficult. Even in Bombay, which of all the provinces had the government best disposed towards capitalist interests, tension was mounting. When its immediate interests were at stake, as was the case in the textile industry crisis of mid-1939, even the most pro-Congress section of the capitalist class, the Ahmedabad textile manufacturers, did not hesitate to attack violently the ministry and tried to pressurize it into taking unpopular measures. On the other hand even the most pro-capitalist among the Congress politicians, such as Patel, could not find any way of avoiding a clash with capitalist interests, without at the same time renouncing the basic tenets of their political faith, including prohibition, which was partly responsible for the aggravation of the financial crisis in the provinces. Patel must have been aware of all this when in July 1939 he mentioned for the first time the possibility of the Congress ministries resigning, if military expenditure was not drastically reduced and if the provinces were not granted a greater share of the income-tax receipts.¹⁵⁰ Undue prolongation of the experiment of autonomous provinces without adequate financial resources would have led to a further deterioration in relations between Congress and business in the provinces, which in its turn would have endangered the emerging alliance between Congress and Indian big business, as symbolized by their collaboration in the National Planning Committee. The interests of both the capitalists and the Congress, therefore, required an end to this uneasy situation. This explains why the capitalists took with equanimity the news of the resignation of the Congress

¹⁴⁸ Erskine to Linlithgow, 6 July 1939, Erskine Papers, IOL, London, Mss Eur. D 596. In a reply dated 12 July, *ibid.*, Linlithgow expresses his surprise at Erskine's views and points out that most likely the international situation is the main cause of the shyness of the investing public in Madras.

¹⁴⁹ See A. R. Dalal's call to the Bihar government to intervene to restore peace in Jamshedpur. *The Leader*, 14 August 1939.

¹⁵⁰ *The Leader*, 23 July 1939.

ministries under the pretext of Linlithgow's rash move in committing India to the war without prior consultation with the Assembly. While they had nothing to gain from a continuation of Congress rule in the provinces, the prospect of easy war profits became alluring. It was once again important to establish good relations with the British authorities, and a large section of the Indian business class set to the task. The Congress ministries went down unsung and unregretted. Yet with the benefit of hindsight, we can see that the 1937–39 period was decisive in placing the relations between the Congress and business on a more assured footing. It is worthwhile attempting a detailed assessment of it.

Conclusion

The advent of the Congress governments in most of the provinces of India did not result in major changes in economic and fiscal policies, which were basic to the prosperity of Indian capitalists, since control of finances and customs remained in British hands. The impact of the new governments was felt mainly in the realm of labour and agrarian relations, two domains in which provincial governments had powers to legislate. It was also felt, though to a lesser extent, in the field of industrial policy. Large sections of the Indian capitalist class remained unaffected by the direct impact of the Congress ministries. Those businessmen who were engaged mainly in foreign trade, also those who had the bulk of their interests in the non-Congress provinces and in the Indian States (including a large section of the Marwari community, the largest of the Indian business communities) did not suffer or gain as a result of the policies of the Congress. Given those limitations, the period under review saw significant developments which had a lasting influence on the relations between Indian business and the Congress.

The most important result of the period of provincial autonomy was a definite shift in the labour policies and ideology of the Congress. While in the previous period, starting with the Karachi declaration on fundamental rights, Congress had tended to be vaguely sympathetic to workers' demands but had not been deeply involved in the labour movement (with the exception of Ahmedabad), it now found itself suddenly confronted with an unprecedented wave of labour unrest sweeping the entire country. Congress response to labour unrest was largely shaped by the fact that it had already established a relationship with the capitalists and could ill afford to upset it, since in the event of a new struggle with the British, it would again need financial help from the businessmen. Though the Congress governments made some concessions to the workers, they mainly aimed at keeping the labour movement

within definite bounds. To achieve this, Congressmen were drawn into intervening more actively in the affairs of the labour movement. There they clashed with other organized groups, particularly with the communists, who were not very strong but had pockets of influence mainly in Bombay and Cawnpore. As a result of this confrontation, the Congress labour policy became dominated by a fear of communist infiltration, which drove them towards following a policy of greater moderation. For the Congress, labour policy became largely synonymous with labour administration; struggles were seen as unnecessary and dangerous and direct peaceful dialogue between employers and workers was favoured as the only solution to all problems. The Bombay Trades Disputes Act expressed the essence of the Congress philosophy of labour relations: conciliation was to be favoured at all costs. Though this approach tended to work to the advantage of the capitalists, it could also clash with their interests, since in some cases they themselves sought confrontation and were prevented from achieving it. Yet the Congress blueprint for industrial relations was clearly designed to favour capitalist interests, and the Indian business class, which prior to 1937 had harboured fears that the Congress would not be able to control labour, could feel reassured that a Congress Raj would be as effective as the British Raj, if not more so, in dealing with the working class.

In other fields also the policies pursued by the Congress ministries helped to dispel fears entertained by the capitalists. For instance, widespread apprehensions about nationalization of public services and key industries were set at rest by the policy of collaboration with private enterprises pursued in the Congress-ruled provinces.

The question of capitalist attitudes to the policy of rural upliftment followed by the Congress ministries is, however, more complex. Rajat Ray has argued that this policy was basically in the interest of the capitalists, since it ultimately aimed, by raising the standard of living in the countryside, at enlarging the internal market for industrial goods.¹⁵¹ Yet, apart from the fact that it could be seen as a diversion of scarce resources which could have been utilized more efficiently in giving direct aid to industrial development, another inherent danger in this policy was underlined by the President of the United Provinces Merchants' Chamber. He expressed fears that, if not supported by appropriate measures to relieve indebtedness, the rural upliftment drive of the Congress governments might result only in an increase of social tension by raising expectations without being able to satisfy them.¹⁵² Basically capitalists, though they might be interested in agricultural development, had a stake

¹⁵¹Rajat Ray, *Industrialization in India, 1914–1947, Growth and Conflict in the Private Corporate Sector* (Delhi, 1979), p. 70.

¹⁵²*The Leader*, 5 March 1938.

in the preservation of the social status quo in the countryside, and any attempt at disturbing it even mildly, as in the United Provinces with the 1939 Tenancy Bill, was looked upon with suspicion. The enlargement of the internal market was a secondary consideration compared to social peace. Yet the emergence of a wealthy tenantry in some regions like Gujarat was a welcome development, provided this group did not compete too directly with urban capitalists for governmental resources. In any case further research into the problem of rural–urban linkages, a neglected field, is needed before we can form a clearer picture of the situation.

As far as the related question of large versus small-scale and cottage industries is concerned, things are not very clear either. Though it can be rightly argued that there was no fundamental opposition of interests between the cotton mills and the handlooms (since the latter were largely fed with yarn from the mills), it should yet be noticed that in Bombay, the millowners resisted attempts by the provincial ministry to allot production quotas to the mills and the handlooms, and to reserve a share of the market to cottage production.¹⁵³

By the end of the 1930s despite the setting up of the National Planning Committee, the options of the Congress in matters of economic policy were far from clear and priorities had not been sorted out. Questions of relations between agriculture and industry, large and small-scale industries, the place of foreign capital, were still unresolved. Congress economic thought was still in a state of flux, with ‘Gandhians’ and socialists battling about modern industrialization, and it took a few more years before a clearer picture started to emerge.

Within a general framework marked by a growing trend of moderation in social matters, there were nevertheless significant nuances, in the way different Congress ministries tried to grapple with the problems. In that respect, Bombay and the United Provinces represented two opposite poles. In the United Provinces a trend of mildly radical populism was noticeable in some of the policies of the Congress government and it led to a permanent estrangement of vested interests from the ministry. In Bombay, by contrast, the Congress Government displayed a strong anti-labour, pro-capitalist and pro-rich peasant bias. Madras was a slightly special case, for the ‘radical conservatism’¹⁵⁴ of the Chief Minister, Rajagopalachari, strongly influenced the policy of the provincial ministry and gave it a pro-rich peasant tinge more pronounced than elsewhere, while urban interests felt neglected.

Business responses, therefore, varied from one province to another. In Bombay

¹⁵³ See Evidence of Bombay Millowners’ Association before Bombay Economic and Industrial Survey Committee, 35th meeting, 7 August 1939, in Thakurdas Papers, File 212.

¹⁵⁴ See A. H. R. Copley, *The Political Career of Rajagopalachari, 1937–1954. A Moralism in Politics* (Delhi, 1978), for an analysis of Rajaji’s views.

a close relationship developed between big business and the ministry, though it was endangered towards the end of the period by financial difficulties. Even British business expressed its satisfaction at the course of policy followed by the Congress ministry.¹⁵⁵ On the contrary in the United Provinces big business was in the forefront of the opposition to the Congress government. In Madras also a trend of opposition was clearly noticeable. Everywhere Muslim businessmen tended to oppose the ministries and to align with the Muslim League.

Though Congress provincial governments were not always successful in accommodating Indian capitalist interests and could not prevent conflicts from arising between them and sections of the business class, an overall view of the two years of Congress rule in the provinces reveals that a certain amount of stabilization did occur in relations between business and Congress. While during the war many businessmen reverted to a policy of close collaboration with the British authorities in order to benefit from the war orders, the business class as a whole did not break with the Congress during the war period, and when the Party made its final bid for power, businessmen found themselves in a position to influence developments to a certain extent. The first years of Congress rule after 1947 witnessed a pattern in the relations between Congress and business which bore some similarity to the one which had emerged during the period of provincial autonomy.

¹⁵⁵ See the speech of the Chairman of the Bombay Chamber of Commerce, A. MacIntosh, in *Bombay Chamber of Commerce, Annual Volume 1938* (Bombay, 1939), p. XXVII.